
FUNDAMENTALS OF INTEREST RATE RISK MANAGEMENT (FIRRM)

Type of Participant Targeted

This program is designed for a safety and soundness examiner, who is starting to review and evaluate interest rate risk activities and market sensitivity of commercial banks and bank holding companies as a part of their routine job functions. Others wanting a review of interest rate risk management products and processes may also benefit from this program.

Prerequisites

Prior to taking this course, the safety and soundness assistant examiner should complete all BEST Modules, Orientation, Banking and Supervision Elements (BASE), Self-Study Program #1, Operations and Analysis School (OpAS) and the Asset Liability Modules (ALM) contained in Self-Study #2. It is highly recommended that the FIRRM class be completed 3 to 6 months before taking Examination Management (XMan).

Course Overview

FIRRM is a 4-½ day program and should be taken 3-6 months prior to Examination Management (Xman). Precourse work takes approximately 15-20 hours to complete and provides a review of gap, duration, simulation as ways to measure interest rate risk, and the pricing of option free bonds. Before coming to class, students have an opportunity to review and critique an ALCO policy on a fictitious financial institution, along with reviewing an investment portfolio. Before coming to class, students have an opportunity to review and critique an ALCO policy on a fictitious financial institution, along with reviewing an investment portfolio.

The course supplements and reinforces concepts introduced in earlier courses and better prepares the participant for more advanced coursework. This program provides a practical review of financial and economic indicators through case study application, and gives students an opportunity to identify and draw their own conclusions on investment risk and interest rate issues that may be encountered on examinations. Some of this is performed through a case study review of an ALCO policy and an evaluation of an investment portfolio. Explanations of VAR, its use as a market risk management tool and calculations are briefly covered. This program contains in-depth coverage of liquidity analysis, including an overview of yield curves, and the impact in a changing interest rate environment. Evaluations of contingency liquidity planning and strategies are also covered.

Historical perspective: The FIRRM program became a part of the core training program in 2000 for an individual pursuing a commission as a safety and soundness examiner through guidance of SR 00-2(TRN). A review of that letter should supplement the description of the program provided herein. FIRRM does not directly affect the curriculum of consumer affairs, information technology or trust examiners. The former Interest Rate Risk Management class is an equivalent program for FIRRM.

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Course Objectives

Upon completion of this course, participants will have a better understanding of:

How financial markets determine interest rates.

Tools that are available to gauge a bank's interest rate risk exposure.

The reasons banks use certain products to hedge their interest rate risk exposures.

How to evaluate liquidity needs in different rate environments.

Ways to bridge potential deficiencies and other aspects of contingency liquidity planning.

Overview of Course Curricula

Topics Covered	Approximate Class Time
Monday	
Introduction to FIRRM	1 ¼ hours
Introduction to Interest Rate Risk	1 ½ hours
Real vs. Nominal Interest Rates	1 ½ hours
Risk and Term Structure of Interest Rates	1 ½ hours
Introduction to Case Study	1 hour
Tuesday	
Futures and Forwards	1 ½ hours
Swaps	1 ½ hours
Options	1 ½ hours
Derivatives Accounting	1 ½ hours
Case Study	1 hour
Wednesday	
Complex Products	1 ½ hours
Mortgage-Backed Securities	1 ½ hours
Introduction to Modeling, Balance Sheet Risk and VaR	2 ½ hours
Introduction to the FOCUS Report	1 ½ hours
Thursday	
Assigning the "S" Component	1 ½ hours
Liquidity Overview	1 ½ hours
Liquidity and Contingency Planning	1 ½ hours
Assigning the "L" Component	1 ½ hours
Friday	
Hedging	1 ½ hours
Case Study Discussions	1 ½ hours

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Class Size

The minimum number of participants is 16 and the maximum is 25.

Instructors

System personnel teach FIRRM and they are usually from the capital markets area. A “Lead” instructor is designated prior to the start of the class and is responsible for instructor assignments. If assistance is needed in the process, the course administrator at the SSD Center will help. Three and sometimes four instructors are needed to effectively conduct this program.